

## Message Text

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47

ACTION EA-10

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-06

FRB-01 INR-07 NSAE-00 RSC-01 TRSE-00 XMB-04 OPIC-24

SP-02 CIEP-02 LAB-03 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 AGR-10 SWF-01 FEAEE-00 INT-05 SCI-04

PA-02 PRS-01 USIA-15 L-02 H-02 DRC-01 /148 W

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R 160855Z OCT 74

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 4896

INFO AMEMBASSY THE HAGUE

AMCONGEN HONG KONG

AMEMBASSY KUALA LUMPUR

AMEMBASSY MANILA

AMEMBASSY SINGAPORE

AMEMBASSY TOKYO

AMCONSUL MEDAN

AMCONSUL SURABAYA

UNCLAS JAKARTA 12756

REF: JAKARTA 12300

E.O. 11652: N/A

TAGS: EFIN, EGEN, ID

SUBJ: GOI ACHIEVES TENUOUS TRUCE IN BATTLE WITH INFLATION

1. SUMMARY: RANKING HIGH IN 1973 AMONG MORE RAPIDLY INFLATING ECONOMIES, INDONESIA IN SIX MONTHS SINCE APRIL 1974 HAS REGAINED FAIR CONTROL OF PRICES, INCREASES NOW RUN AT NIMBLE BUT MORE TOLERABLE ANNUAL LEVEL OF 16-20 PERCENT. CONTROL REMAINS TENUOUS HOWEVER AS CREDIT EXPANSION PROCEEDS AT RISKY RATE. END SUMMARY.

2. INDONESIA IN FY 1973 GAINED DUBIOUS DISTINCTION

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AS ONE OF WORLD'S MORE RAPIDLY INFLATING

ECONOMIES,  
WITH PRICE INCREMENTS APPROACHING 50 PERCENT ANNUALLY (UP TO  
100 PERCENT FOR NON-RICE PRICES). UNCONTROLLED CREDIT EXPANSION  
COMBINED WITH BALLOONING IMPORT AND EXPORT PRICES TO  
BECOME MAIN CONTRIBUTORS. IN APRIL 1974 GOI DECREED  
ANTI-INFLATION PACKAGE OF CREDIT EXPANSION CEILINGS  
AND HIGH INTEREST ON SAVINGS UP TO 30 PERCENT PER ANNUM.  
THESE IT COMBINED WITH TIGHT BUDGET MANAGEMENT IN EFFORT TO  
CONTROL INFLATION -- A CONTRIBUTORY FACTOR IN  
POPULAR DISCONTENT EXPRESSED IN JANUARY 1974, RIOTS.

3. AFTER SIX MONTHS' EXPERIENCE UNDER NEW POLICIES,  
GOI EFFORT RATES AS MODERATE SUCCESS -- WITH RESERVATIONS.  
OVERALL EFFECTS HIGHLY BENEFICIAL, WITH PRICES OF RICE  
AND OTHER BASIC ESSENTIALS MOST AFFECTING POPULAR  
CONSUMPTION (MAINLY ADMINISTERED-PRICE COMMODITIES)  
ACTUALLY 7 PERCENT BELOW END-MARCH 1974. TRADITIONAL UP-  
SURGE OF PRICES AS END OF RAMADAN (LEBARAN) APPROACHES HAS  
BEEN NOTABLY LACKING. JAKARTA 65-ITEM INDEX SHOWS  
SIX-MONTH INCREASE AT ANNUAL RATE OF 16 PERCENT--WELL BELOW  
GOVERNMENT GOAL OF 25 PERCENT FOR FY 1974/75, AND HALF OF  
RATE FOR SAME PERIOD LAST YEAR. (UNPUBLISHED 100-ITEM  
INDEX SHOWS SOMEWHAT HIGHER INCREASE - NEARER 20 PERCENT,  
MAINLY BECAUSE NEWER INDEX GIVEN LOWER WEIGHT TO  
RICE, PRICE OF WHICH DECLINED OVER SIX-MONTH PERIOD.)

4. COMPONENTS OF ANTI-INFLATION PACKAGE HOWEVER CONTRIBUTED  
IN DIFFERING DEGREES TO FAVORABLE RESULT. CREDIT EXPANSION,  
DESPITE IMPOSITION OF 20-25 PERCENT CEILING FOR FY 1974/75,  
PROCEEDED AT RISKY 33 PERCENT CLIP. ALSO, RAPID ACCUMULATIONS  
OF FOREIGN EXCHANGE BUILT UP MASSIVE POTENTIAL FOR FURTHER MONEY  
SUPPLY EXPANSION. OFFSETTING FAVORABLE FACTORS WERE THAT  
GOVERNMENT CONTINUED EXPANDING ITS BUDGETARY SURPLUS  
RAPIDLY ENOUGH TO OFFSET ROUGHLY 80 PERCENT OF FOREIGN  
EXCHANGE ACCUMULATIONS. INCREASED INTEREST RATES PAID  
ON SAVINGS PRODUCED FURTHER OFFSET VIA EXPANSION OF  
PRIVATE SAVINGS IN BANKS AT ANNUAL RATE OF 67 PERCENT, NEARLY  
TRIPLE THAT FOR SAME PERIOD LAST YEAR. AS NET RESULT ALL THESE  
FACTORS, MONEY SUPPLY (M.S.) NOW EXPANDING AT BRISK BUT  
ACCEPTABLE ANNUAL RATE (22 PERCENT). (TYPICALLY INDONESIA  
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SINCE 1970 HAS ABSORBED OVER 25 PERCENT MS EXPANSION WITHOUT  
SIGNIFICANT INFLATION.)

5. GOVERNMENT ALSO SHOWS NOTABLE VIGOR IN BUILDING  
UP STOCKS AND PIPELINE OF ESSENTIAL COMMODITIES TO  
PROTECT AGAINST FUTURE SHORTAGE-CREATED PRICE INCREASES.  
FINALLY, EXTERNAL FACTORS MARGINALLY FAVORED SUCCESS GOI  
ANTI-INFLATION EFFORT AS PRICES OF KEY CONSUMER IMPORTS

(WHICH NEARLY DOUBLED BETWEEN SEPTEMBER 73 AND APRIL 74)  
AND OF TRADITIONAL EXPORTS GENERALLY STOPPED RISING AND ON  
AVERAGE IMPORTS APPEAR 10 PERCENT AND EXPORTS 25 PERCENT BELOW  
PEAK LEVELS OF EARLY 1974.

6. MODERATION OF INFLATION NOT WITHOUT MODEST COSTS TO  
ECONOMY AS SOME BUSINESSMEN IN SOME SECTORS COMPLAIN OVER  
CREDIT "SHORTAGES" (READ "DOUBLED PRICES OF RAW MATERIALS  
AND CAPITAL GOODS"). VAST MAJORITY OF POPULATION GAINED  
RELIEF FROM ANTI-INFLATION EFFORT, ALTHOUGH PRICE LEVELS  
OF NINE ESSENTIAL COMMODITIES IN MEDA, PALEMBANG, MENADO  
AND MORE REMOTE AREAS OUTSIDE JAVA REMAIN 25, 40 AND EVEN  
60 PERCENT HIGHER THAN IN JAKARTA. NO INDICATIONS YET OF  
CREDIT RESTRAINTS CAUSING RECESSION IN DOMESTIC BUSINESS  
ACTIVITY, BUT SOFTENING DEMAND ABROAD IS HURTING TRADITIONAL  
EXPORTS AND PRODUCING INFLUX OF JAPANESE/HONG KONG TEXTILE  
WHICH AT LEAST TEMPORARILY HURTING DOEMSTICAL MILL SALES.

7. PROSPECTS FOR CONTAINING INFLATION BELOW 25 PERCENT FOR  
SECOND HALF 1974/75 APPEAR GENERALLY FAVORABLE BUT STILL  
SOMEWHAT TENUOUS. HIGH RATE OF CREDIT EXPANSION  
REMAINS WORRISOME. TO ENFORCE FY CREDIT CEILING  
GOVERNMENT MUST HOLD SECOND-HALF EXPANSION TO ANNUAL RATE  
BELOW 17 PERCENT -- A SEVERE LIMIT RELATIVE TO NORMAL  
RATE OF EXPANSION. INFLATIONARY POTENTIAL OF LARGER-  
THAN-EVER FOREIGN EXCHANGE RECEIPTS FROM OIL COMPANY  
TAX PAYMENTS IN OCTOBER AND MARCH WILL CONTRIBUTE  
DANGEROUS INFLATIONARY POTENTIAL UNLESS CREDIT CONTROLS  
HOLD AND GOVERNMENT RESISTS PRESSURES FOR GREATER  
DOMESTIC BUDGET EXPENDITURES. OVERALL HOWEVER, ODDS  
FAVOR GOVERNMENT SUCCESS.

8. IN ANY EVENT, INDONESIA ENJOYS LUXURY OF KNOWING  
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THAT RUPIAH REMAINS ONE OF WORLD'S STRONGER LDC  
CURRENCIES SO LONG AS OIL EXPORT PRICES REMAIN HIGH  
(REFTEL).  
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## Message Attributes

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**Capture Date:** 01 JAN 1994  
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